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The Coronavirus infects the Belt & Road Initiative too

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With the infrastructure and investment project of the "New Silk Roads" (BRI) announced in 2013, China promised a worldwide push for development and globalization. But the corona pandemic has thrown all economic forecasts to the winds and intensified the geopolitical confrontation.

In mid-March 2020, China's President Xi Jinping used the delivery of medical equipment and the dispatch of doctors to Italy to bring the close cooperation on a "Silk Road of Health" agreed with the World Health Organization (WHO) three years earlier into the media spotlight. China also offers experience and active assistance to numerous other countries, especially in the immediate neighbourhood in Asia, in the fight against the corona epidemic. Beijing is in need of positive news, as the Covid-19 crisis is being used by US President Donald Trump and others to undermine China's international reputation.

Beijing is also concerned about the impact of the crisis on the flagship Belt & Road Initiative (BRI) project, which is closely linked to Xi Jinping's name and policies, and thus on the economic prospects of the more than 100 countries involved. The drastic containment measures in China caused interruptions and delays at the countless construction sites for power plants, port facilities, railway lines or industrial plants, many of which depend on Chinese workers and suppliers. These are exacerbated by the spread of the global epidemic in the recipient countries.

For China itself, which is accustomed to constant growth, the significant economic slump in the first quarter of 2020 caused by Covid-19 and the countermeasures taken is an unusual experience, which promptly led to speculation about a loss of legitimacy for the Xi Jinping government. After the closure of half a million mainly small and medium-sized enterprises, gross domestic product fell by 6.8 per cent instead of growing by 6 per cent as originally targeted. Figures from the Berlin research institute MERICS show production slumps of almost 20 per cent in the construction sector, up to 30 per cent in the automotive and textile industries, and 10 per cent in the manufacturing industry as a whole. Exports fell by 13.3 per cent, and the retail trade by 20 per cent.

In the meantime, however, there are also some first signs that the economic indicators are pointing upwards again: Industrial production already rose again in March, as did exports and investment. Condensation trails in the sky, it is reported, are already almost as numerous as before the crisis. It seems to be paying off that the government has taken early and proactive measures to support the economy and to enable a rapid turnaround to renewed growth, in tandem with measures to contain the epidemic.

Whether this will result in a return to pre-crisis growth rates depends, among other factors, on the performance of global markets, primarily in the most industrialised countries. But the economic perspectives of the BRI

countries, which account for a growing share of Chinese trade and foreign investment, are also critical for a return to a growth path. The billions in loans and investments for the BRI countries are becoming even more important than they were prior to the crisis to mitigate China's own economic problems such as overcapacities in key industries and stagnant export markets. They will also help to secure China's hunger for energy, which will rise again after the crisis, and to ensure the supply of raw materials such as lithium, platinum, chromium and cobalt, which are necessary for the modernisation of its industry. And Beijing must cultivate the political alliances and friendships that have been created along the new Silk Roads in recent years.

The debt burden of many countries, which has become unsustainable with Covid-19, especially for poorer countries, is turning into a potentially explosive issue. Demands for debt relief in the form of deferred payments, debt re-scheduling and debt forgiveness are therefore getting louder all over the world. Even China, which in the past years has become the largest bilateral lender to the countries of the global South, cannot ignore this trend. It is estimated that since 2013, the year in which BRI was launched, Chinese banks alone have pledged USD 461 billion for projects in 138 countries, although not all the money has as yet been disbursed.

A first, small step has been to join the G20-initiative to suspend bilateral interest payments and repayments for low-income countries until end of 2020. BRI projects in financial troubles are to be given support by state development banks such as the China Development Bank. However, an international coalition of civil society organisations has called for such assistance to be used according to ecological and social criteria. After all, many large-scale schemes are causing serious damage to people and the environment.

As a major creditor, Chinese government is in a quandary. It has to accommodate major debt-holders, especially since the debate about the so-called "debt-trap diplomacy" by China is already causing serious damage to its image. In addition, it is essential to keep its partner governments happy. In the past, Beijing has thus frequently provided relief to its borrowing countries.

At the same time, China also does not have unlimited financial reserves. The indebtedness of the central government, of provincial governments and of state-owned banks is now already quite substantial. A number of government policy advisors and the Chinese internet community are persistently lamenting about the waste of too much money on questionable projects and corrupt governments, which is badly needed in the country itself.

Covid-19 has further aggravated and complicated China's international situation, which is already burdened by the trade war with the US and growing suspicions about geopolitical ambitions: The Financial Times already predicted that the pandemic would "act like a roadblock" for BRI projects. And the move to portray China as an altruistic friend and supporter in times of need has been dealt another severe blow by the almost world-wide accusations that China is ultimately responsible for the pandemic and the global recession.